

the estimated tax paid, or you may divide it between you in any way that you agree upon.

If you cannot agree on how to divide it, the estimated tax you can claim equals the total estimated tax paid times the tax shown on your separate return, divided by the total of the tax shown on your return and your spouse's return.

Example

Walter and Mary Smith are married and domiciled in a community property state. Their two children (18-year-old twins) and Mary's mother live with them and qualify as their dependents. Amounts paid for their support were paid out of community funds.

Walter received a salary of \$38,160. Income tax withheld from his salary was \$3,360. Walter received \$94 in taxable interest from his savings account. He also received \$155 in dividends from stock that he owned. His interest and dividend income is his separate income under the laws of his community property state.

Mary received \$140 in dividends from stock that she owned. This is her separate income. In addition, she received \$3,000 as a part-time dental technician. No income tax was withheld from her salary.

The Smiths paid a total of \$3,850 in medical expenses. Medical insurance of \$700 was paid out of community funds. Walter paid \$3,150 out of his separate funds for an operation he had.

The Smiths had \$6,842 in other itemized deductions, none of which were miscellaneous itemized deductions

subject to the 2%-of-adjusted-gross-income limit. The amounts spent for these deductions were paid out of community funds.

To see if it is to the Smiths' advantage to file a joint return or separate returns, a worksheet (shown next) is prepared to figure their federal income tax both ways. Walter and Mary must claim their own exemptions on their separate returns.

The summary at the bottom of the worksheet compares the tax figured on the Smiths' joint return to the tax figured on their separate returns. By filing separately under the community property laws of their state, the Smiths save \$184 in income tax.

If the Smiths were domiciled in Idaho, Louisiana, Texas, or Wisconsin, the result would be slightly different because in those states income from separate property generally is treated as community income. If they lived in one of those states, the interest on Walter's savings account and the dividends from stock owned by each of them would be divided equally on their separate returns.



In figuring your tax, use the amounts from your current tax forms instruction booklet for items such as the standard deduction, exemption allowance, and Tax Table tax. The amounts used in this example apply for 2002 only. The example shows how filing separate returns under community property tax laws can result in lower tax than filing jointly; you must figure your own tax both ways to know which works better for you.

Table 2. Worksheet — Walter and Mary Smith

	Joint Return	Separate Returns	
		Walter's	Mary's
Income (Walter's):			
Salary	\$ 38,160	\$ 19,080	\$ 19,080
Interest and dividends (\$155 dividends + \$94 interest)	249	249	-0-
Total	\$ 38,409	\$ 19,329	\$ 19,080
Income (Mary's):			
Salary	\$ 3,000	\$ 1,500	\$ 1,500
Dividends	140	-0-	140
Total	3,140	1,500	1,640
Adjusted gross income (AGI)	\$ 41,549	\$ 20,829	\$ 20,720
Deductions:			
Community: (Not subject to the 2% AGI limit)	\$ 6,842	\$ 3,421	\$ 3,421
Medical:			
Premiums	\$ 700	\$ 350	\$ 350
Medical expenses (Walter's)	3,150	3,150	-0-
Total	\$ 3,850	\$ 3,500	\$ 350
(Minus) 7.5% of AGI	(3,116)	(1,562)	(1,554)
Medical expense deduction	\$ 734	\$ 1,938	\$ -0-
Total deductions	\$ 7,576	\$ 5,359	\$ 3,421
Subtract total deductions from AGI ^{1,2}	\$ 33,973	\$ 15,470	\$ 17,299
Exemptions ^{1,3} (Subtract to find taxable income)	\$ (15,000)	\$ (6,000)	\$ (9,000)
Taxable Income	\$ 18,973	\$ 9,470	\$ 8,299
Tax ^{1,4}	\$ 2,246	\$ 1,121	\$ 941
Federal income tax withheld	\$ 3,360	\$ 1,680	\$ 1,680
Overpayment (Subtract from Federal tax withheld)	\$ 1,114	\$ 559	\$ 739

¹ **Caution:** In figuring your tax, use the amounts from your current tax forms instruction booklet for such items as the standard deduction, exemption allowance, and Tax Table tax.

² The itemized deductions are greater than the standard deduction (shown here as \$7,850 for married filing jointly and \$3,925 for married filing separately). **Note:** If one spouse itemizes, the other must itemize, even if one spouse's deductions are less than the standard deduction.

³ An allowance of \$3,000 for each exemption claimed is subtracted — 5 on the joint return, 2 on Walter's separate return, and 3 on Mary's separate return.

⁴ The tax on the joint return is from the column of the 2002 Tax Table for married filing jointly. The tax on Walter's and Mary's separate returns is from the column of the 2002 Tax Table for married filing separately.

Table 2. Summary

Tax on joint return	\$ 2,246
Tax on Walter's separate return	\$ 1,121
Tax on Mary's separate return	941
Total tax filing separate returns	2,062
Total savings by filing separate returns	\$ 184

Table 3. Allocation Worksheet

	1 Total Income (Community/Separate)	2 Allocated to Husband	2 Allocated to Wife
1. Wages (each employer)			
2. Interest Income (each payer)			
3. Dividends (each payer)			
4. State Income Tax Refund			
5. Capital Gains and Losses			
6. Pension Income			
7. Rents, Royalties, Partnerships, Estates, Trusts			
8. Taxes Withheld			
9. Other items such as: Social Security Benefits, Business & Farm Income or Loss, Unemployment Compensation, Mortgage Interest Deduction, etc.			

NOTES

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate at **1-877-777-4778**.
- Call the IRS at **1-800-829-1040**.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1-800-829-4059** if you are a TTY/TDD user.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS*.

Free tax services. To find out what services are available, get Publication 910, *Guide to Free Tax Services*. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



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TaxFax Service. Using the phone attached to your fax machine, you can receive forms and instructions by calling **703-368-9694**. Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.

For help with transmission problems, call the FedWorld Help Desk at **703-487-4608**.



Phone. Many services are available by phone.

- **Ordering forms, instructions, and publications.** Call **1-800-829-3676** to order current and prior year forms, instructions, and publications.
- **Asking tax questions.** Call the IRS with your tax questions at **1-800-829-1040**.
- **TTY/TDD equipment.** If you have access to TTY/TDD equipment, call **1-800-829-4059** to ask tax questions or to order forms and publications.
- **TeleTax topics.** Call **1-800-829-4477** to listen to pre-recorded messages covering various tax topics.

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The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling **1-877-233-6767** or on the Internet at **www.irs.gov**. The first release is available in mid-December and the final release is available in late January.

IRS Publication 3207, *Small Business Resource Guide*, is an interactive CD-ROM that contains information important to small businesses. It is available in mid-February. You can get a free copy by calling **1-800-829-3676** or visiting the IRS web site at **www.irs.gov**.

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